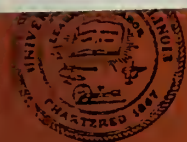






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Strategic Argument Mapping

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# **BEBR**

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October 1984

## **Strategic Argument Mapping**

Anne S. Huff and Karen E. Fletcher  
Department of Business Administration



## STRATEGIC ARGUMENT MAPPING

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### ABSTRACT

This paper outlines a method, called "Strategic Argument Mapping" (SAM), for identifying the content and structure of an organization's strategy. The method is based on the work of Stephen Toulmin, a philosopher. Toulmin's work has been used by Mason and Mitroff (1980) to compare the ramifications of strategic alternatives at one point in time. We use it here as a means of focusing attention on the links between strategic ideas over time.

The data come from one of the most dramatic strategy reformulations ever to take place, the strategic reorientation American Telephone and Telegraph has made in the last 10 years. The analysis outlined in the paper suggests that the major changes which this company made in their understanding of two key strategic concepts - competition and structure - are closely linked to their changing ideas about technology and the public interest. This second pair of concepts is particularly interesting because it provides a bridge between strategic arguments made early in the period studied, and the quite different arguments made more recently.

SAM thus illustrates, in at least a preliminary way, the debt new strategy can owe to past strategy. We also suggest, in the concluding section of the paper, that SAM illustrates a needed way of simultaneously tracking both the content and the process of strategy reformulation - two sides of a coin that are all too often artificially separated in strategy research.

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Strategy formulation is a major topic of interest in the field of strategic management. Most researchers have thought of formulation as a kind of entrepreneurial problem solving activity. Even when formulation is discussed within the context of an established firm, the implicit assumption is usually that the strategist begins, conceptually at least, tabula rasa. Although the cost of moving away from current commitments must be considered, according to this view new alternatives can be, and should be, generated without reference to the assumptions upon which current strategy rests.

We find this point of view problematic. Established firms, with an existing strategy, are tied to that strategy not just by capital assets, contracts with buyers and other tangible commitments. An **intellectual** commitment has been required to carry out the established strategy. The environment, the industry, and the company have been assumed to have a certain character. Certain actions have been assumed to have a high probability of leading to desired outcomes. The strategy identified certain problems as being critical for the organization to address, while other problems were less important.

These assumptions, causal beliefs and task orientations must be changed if strategy is to be changed, and moving away from this intellectual framework is not the task of a moment. The intellectual task of strategy reformulation is to **recreate** understanding of the environment, industry and company; to discover and test more appropriate causal beliefs; and to isolate the tasks that will now be most important. Though a wide range of strategic alternatives may be generated, we believe the nature of new alternatives is

partially understood in terms of the old strategy, no matter how unsatisfactory it can now be seen to be.

Work in cognitive psychology suggests that categorization of ideas operates hierarchically, with new ideas related to established "frames" (Bartlett, 1932; Minsky, 1975; Klatzky, 1980). In addition, idea generation itself depends heavily upon analogy from past experience and observations (Maier, 1945). This is not to say that new ideas cannot be generated; merely to say that they must be recognized and evaluated in terms that grow out of the past.

The new organization member, including the CEO brought in from the outside, is not initially tied to the intellectual commitments of past strategy, which is why organization change so often requires new leadership. But the new CEO can not totally escape the influence of past strategy on the new. The tie between old strategy and new is created by the need to find out about the organization from current members. The tie is also created by anticipating the need to communicate changing strategy to a variety of stakeholders: employees, stockholders, the financial community, and even other competitors.

These observers have a more distant and simplified view of strategy. By design, they are less aware of the stresses and strains that brought about the need for strategic change. To discuss new strategies the CEO must draw a bridge from the old to the new; showing that the inadequacies of the old strategy are met by capabilities of the new. Thus even the CEO brought in from outside the company is forced, to some extent, to frame new strategy in

terms of the past, if only in denial.

The study of strategy reformulation must attend to these links. We believe that the stamp of the old strategy will always appear in some form on the new strategy - even when, **especially** when, that new strategy is ably conceived. More strongly, the most probable alternatives from which the new strategy was drawn are at least loosely constrained by this intellectual past.

### **Strategy Reformulation at AT&T**

This paper makes a preliminary attempt to empirically test these expectations. We have chosen for study a company whose change in strategy was fundamental and dramatic, involving both a change of many deeply embedded ideas and values, and a radical change in the company's structure and way of operating. In fact, the extent of American Telephone and Telegraph's change in direction has surprised many observers as " more daring than anyone ever thought could come from the telephone company, (BusinessWeek, October 11, 1982.)

The company's redirection involved agreeing to divest its 22 local operating companies, and give up a monopoly position in the telephone business. This decision followed almost a decade of activity not only by the Department of Justice, but by the Federal Communications Commission, other regulatory bodies, and the legislature. In its dealings with the federal government, as well as many state level bodies, AT&T faced a diverse set of actors who were

rarely acting in concert; indeed, they often seemed to pursue conflicting aims.

Diverse technological developments - beginning somewhat earlier - were also part of the picture. Advances in signal transmission technology, the development first of microwave and later satellite transmission, made one of the basic rationales for AT&T's 'natural monopoly' in intercity transmission - the physical limitations of the cable network - less compelling. Rapid adoption of computer technology in the 1960's demanded facilities for digital transmission to facilitate communication between computers, something for which AT&T's existing cable network was not well suited. The areas of data transmission and data-processing services were also merging due to changes in technology, but AT&T was constrained by the 1956 Consent Decree from offering data processing related services.

Beginning in the 1960's, primarily through the efforts of the Federal Communications Commission, various sectors of this rapidly changing industry were gradually opened to competitive entry. In November 1974, allegedly in response to AT&T actions in countering the growth of competition in these newly competitive sectors, the Department of Justice brought its suit against AT&T, Western Electric and Bell Laboratories charging the defendants with monopolizing telecommunications services and products.

While the suit was pending, AT&T was also faced with the uncertainties created by regulatory, legislative, and judicial activities. The FCC's Computer Inquiry II was conducted to investigate, among other things, the advisability of completely deregulating customer premises equipment, and to

examine the question of whether AT&T should be permitted to offer computer services. Numerous bills were introduced in the House and Senate; many required some degree of divestment and certainly all would have had a major impact on the industry. There were also judicial rulings outside the antitrust case.

AT&T claimed that they were not in violation of antitrust law. More generally, they resisted many of the ideas presented in the various other forums in which telecommunications policy was being debated, as neither in their own interest nor the interest of the public. Two years after the Department of Justice suit was filed, for example, John D. deButts, Chairman of the Board of AT&T still had "a strong conviction" that what he called "selective competition" would hurt the public. He "insisted" that the integrated system built up by the company under monopoly was its "greatest strength" and announced:

Preservation of the Bell System's organization structure, we are convinced, is in the best interest of the public and our share owners. We have no intention of acquiescing in its undoing.

The New York Times, Dec. 19, 1976, p. 71

Within three years, however, AT&T had completely reversed this position. The 1979 Annual Report speaks of "legislation...which can yield the public the benefits of competition." And in a presentation to the New York Society of Security Analysts, deButt's successor, Charles L. Brown, said:

We have listened carefully to the concerns of Congress and others. And we have indicated a readiness to accommodate to changes in our industry's basic structure -- changes that are perhaps more far-reaching than any in the history of U.S. business.

This paper focuses on how AT&T changed its posture so dramatically on proposals to alter the fundamental nature of its industry and itself. We document important aspects of that change, and suggest how AT&T's experience may be generalized to understand more about strategy reformulation as it is undertaken by all organizations, including those with much less dramatic pressures for strategic change.

### Methodology

Our data set consists of 3722 lines of computer file text from the nine AT&T Annual Reports from 1975 to 1983. From each Report the Chairman's Letter to Share Owners and those sections of the report dealing with the regulatory, legislative, or judicial actions of the federal government were entered into microcomputer text files. Line numbers were added to simplify reference.

The data set covers the period from the DOJ antitrust suit through the date on which the major terms of the Consent Decree took effect. The Annual Reports offer a fairly compact statement of corporate activity and strategy over this period. They have the advantage of being issued on a year by year basis, to the same broad audience. The initial checks we have done indicate that the statements of policy and strategy offered in these reports are quite consistent with the many other statements made by company officials in legislative hearings, to the press, and to members of the financial

community. For this company, data excess is a problem. Our decision was to test our ideas for coding and analysis on the set of statements found in the Annual Reports, and then augment the data with other sources of information, if necessary.

In essence, we suggest that statements made in the Annual Reports offer a convincing "argument" in support of AT&T's strategy. Of necessity, the argument describes the company's view of its environment, including its view of the desirability of deregulating the American telecommunications industry, with all its attendant implications for the structure of the industry and AT&T's mode of operating therein.

To clarify the nature of this strategic argument we are using a form of analysis first suggested by a philosopher, Steven Toulmin (1958). Mason and Mitroff (1980) suggest that Toulmin's way of thinking about argument is especially appropriate for structuring debates about policy issues in organizations, and they have developed a method for generating and evaluating strategic arguments along the lines Toulmin suggests. We propose that Toulmin also provides a useful framework for making a post hoc analysis of strategic argument. The method of analysis is especially useful for analyzing situations as complicated as the one with which AT&T has wrestled over the last ten years.

Toulmin's approach can be used to generate what we call a "strategic argument map." Our interpretation of this method of analysis requires that a text be divided into "arguments" which are then further broken down into seven major categories:

1. the Claim, a statement put forth as worthy of belief
2. Grounds, or Data, statements brought up to support the claim
3. Qualifiers, which indicate the force with which a statement is made
4. Warrants, general statements which justify the logical connection between claim and grounds
5. Subclaims, contingent claim to be understood as true or worthy of belief only in the context provided by the "key" or "summary" claim of an argument
6. Elaborations, which provide further information about any of the above statements
7. Reiterations, which repeat previous statements.

All the text in our sample was divided into topic areas, then subdivided into "arguments," each supporting a major claim. The claim was identified, and the rest of the text labeled as one of the six supporting elements of the argument (items 2-7 above) as appropriate. (Occasionally a portion of the text was not linked to an argument. Almost always this part of the Report provides factual material - about the progress of federal activities, for example - without further comment.)

The various components of the argument were then copied from the computer text file and stored in argument format, as illustrated in Appendix A. The arguments that are outlined by this process can also be represented diagrammatically, as Mason and Mitroff have done, and as we do in the body of



this paper. Further information about the method and a set of coding protocols is available in a coding manual we developed for an earlier project (Fletcher and Huff, 1984).

SAM was supplemented by a second method of content analysis which uses computer search routines to count word usage in a given section of text. The routines used can also create a second file of full sentences containing the word or phrases which were the subject of search, on a year by year basis, as illustrated in Appendix B. This process allowed key concepts to be easily identified and counted, and facilitated tracing key concepts over time for subsequent analysis within their fuller argument contexts.

One of us coded all material for odd years, the other coded the even years. Unlike the word search, which is a mechanical process, mapping this material requires that the coders understand the context of a given statement, and consistently identify argument components. We drew upon the coding manual to guide the coding process and help achieve intercoder reliability. To test for intercoder reliability the divisions of the Annual Reports marked by headings were taken as "units" of analysis. A 10% random sample of eight such units from the data set (four from even years, four from odd) was selected for measurement of intercoder reliability. Each sample was coded by both authors.

We arrived at the most appropriate measures of intercoder agreement by reasoning that some coding decisions were more critical than others. In particular, intercoder agreement on the location of major claims, and on the location of argument boundaries, are especially important. Thus the

following comparisons were made in our assessment of intercoder reliability.

1. Agreement on the location of claims. On this measure, # out of # matched, for agreement of x%.
2. Agreement on the extent of each given claim's supporting elements. # out of # argument matched 100%. Of the remaining #, none matched less than x% on an item by item comparison.

### Summaries by Year

After examining each year's set of arguments, we summarized the basic position(s) AT&T presents in each year of the period studied, along with very brief notes on the events of each year, as follows.

#### 1975

In November 1974, the Department of Justice brought the antitrust suit against AT&T. (The FCC had been opening industry sectors - customer premises equipment and intercity transmission - to competition since the 1960's.)

In the Annual Report, AT&T was arguing very strongly for the traditional principles that had guided the telephone industry and against what they saw as the FCC's and Department of Justice's challenges to these same principles. They were urging Congress to take up the task of establishing an "authoritative" policy to guide the industry.

## 1976

In 1976 the Communications Consumer Reform Act came close to passing in the House of Representatives. The Act would have ended nearly all competition in the telecommunications industry.

The 1976 Report echoes 1975. AT&T was arguing very strongly for the validity of traditional policy and aims of the industry and against what it saw as the FCC's challenge to these aims. It was also advocating that policy should properly be set by Congress and urging Congress to "reaffirm and clarify the intent of the Communications Act of 1934."

## 1977

Congress reversed its earlier views; far less favorable legislation was being introduced, most requiring some degree of divestment.

AT&T is beginning to recognize that changes may be required of it. Strong arguments are presented in defense of the nationwide network and its integrated structure. However they also begin to formulate their view of themselves as competitors. A lengthy "Statement of Policy" presents AT&T's stand on a wide range of issues.

## 1978

John deButts' last year as Chairman.

AT&T's arguments were concerned primarily with a defense of the integrated structure of the Bell System. They argued that their integrated structure had provided well for the American public, would continue to provide all future needs, and should remain unimpaired. In recognition of the requirements of a more competitive industry, now accepted as a reality, the company reports on a large-scale restructuring intended to strengthen their marketing function.

## 1979

Bills intended to update and revise the Communications Act of 1934 are considered in both the House and Senate. The FCC issues a Tentative Decision in its Computer Inquiry II (see 1980).

**AT&T has completed its major restructuring. Although it is still arguing for the preservation of the "unitary management of the nationwide network" and its integrated structure, it is also looking to compete in computer services markets. AT&T announces its willingness to accept "alternative futures".**

## 1980

The FCC issues its Computer Inquiry II final decision which allows AT&T to compete in some deregulated markets and offer "enhanced non-voice" services, provided it forms fully separate subsidiaries to do so.

**Arguments in the Report primarily focus on presenting reasons for the second large-scale restructuring in two years. AT&T has accepted the inevitability of competition and is identifying transition issues critical to its development as a full-fledged competitor. They see progress towards resolution of DOJ suit but are less confident that their integrated structure will remain intact than they have been in previous years.**

## 1981

In January 1981 the DOJ antitrust suit came to trial. There was some early hope of resolution but the incoming Reagan administration brings a change in key DOJ personnel. In October, the Senate passes S. 898, the Telecommunications Competition and Deregulation Act of 1981. H.R. 5158 is introduced in December.

**By the time its Annual Report is published, AT&T had accepted the government-proposed Consent Decree, ending the antitrust suit and modifying the restrictions placed on AT&T by the earlier 1956 Consent Decree. Arguments focus on presenting reasons behind accepting the Consent Decree. AT&T sees HR 5158 as imposing even more restraints on its ability to compete than the Senate bill.**

## 1982

The government-proposed Consent Decree is accepted January 8, 1982, and DOJ drops the antitrust suit. AT&T blocks post-Decree legislation (H.R. 5158) in the House of Representatives by urging share owners to undertake a massive letter-writing campaign.

**The primary focus is on giving information to share owners on effects of Consent Decree.**

## 1983

Deregulation of telephones and other equipment effective January 1, 1984.

**Report focuses on 'The New AT&T.' Emphasis on definition of business and corporate commitments.**

These summaries document changes in AT&T's strategic posture based on arguments made by the company itself, rather than on third party assessments. While more could be done with this macro level of analysis, it

is interesting to point out that the company's focus of attention fits very well into models of death and dying. Tannenbaum (1976) notes that such models can be usefully applied to organizational transitions, and suggests that organizational development efforts have focused too much on the introduction of new forms of behavior and have not sufficiently attended to the need for organization members to deny needed change, resist identifying themselves with change and mourn the passing of the old state.

These phases can be identified at a more strategic level in our own data set. . AT&T spent most of its efforts in 1975 and 1976, for example, denying the need for change and objecting to the kinds of change being made. Acceptance of the need for change comes gradually. Mourning can be observed as the Company accepts the Consent Decree in 1981, which Chairman Brown describes as "a wrenchingly difficult decision."

In **order** for new ideas to become a part of the organization, Tannenbaum argues, the transition period must explicitly allow the past to be examined and relinquished. Brown might be said to be following this advice when he writes in the 1983 Report, a Report which in general is full of optimism and plans for the future:

At midnight on December 31, 1983, the Bell System passed into history, bringing to a close a unique and memorable chapter in the chronicle of American business enterprise....Let it be noted...that the Bell System people did what was asked of them....The record of the Bell System was one of promises kept, and we are proud of that record. The future of the Bell System's separate parts is promising. But we can only regret that an unyielding combination of technological, regulatory, legal and political pressure brought to an end what very well may have been the most successful large scale business organization in history.

## Micro-analysis of Reformulation

In the next part of the project reported here, we tried to look more closely at the substance of strategy reformulation over the ten years summarized above. The method was to follow several key concepts through the data base, documenting any changes in the way in which these concepts were defined over time, and then look at the arguments which incorporated each instance of these key concepts. Our aim was to gain a more detailed understanding of what was actually involved in the dramatic change in strategy that AT&T accomplished.

The process might be compared to trying to pull a few "threads" from the whole cloth of strategy; the accompanying danger of missing the essential nature of the whole is lessened by the initial summary of the Reports. We also feel that by beginning with the concepts of "competition" and "organization structure", we have chosen two concepts essential to the strategy of **any** firm, and two concepts that are especially relevant to understanding AT&T over the last decade.

## A Changing View of Competition

Over the course of nine years, the Annual Reports refer to competition, competitors and other derivatives of "compete" 142 times. The changing strategic posture of AT&T toward competition can be illustrated by a micro level analysis of these many references.

In the early years of 1975 and 1976, the company refused to take competition at face value. The word was put in quotes, spoken of as "market allocation in the guise of competition," and referred to as "selective" or "contrived" competition. The company's basic stand is illustrated by the argument mapped in Figure 1, taken from the 1975 Annual Report.

Figure 1 about here

By 1977 this stand was changing. The lengthy "Statement of Policy" in the 1977 annual report takes a more accepting view of competition. The word is used in quotes only twice, and the various qualifying adjectives which appear in previous years are absent. While all along the company has indicated a "willingness" to compete, they now more specifically note they will set earnings goals "that are **competitive** with those of other leading U.S. enterprises," and say specifically they will "**compete** vigorously" in

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1. To highlight the term discussed, boldface type will sometimes be used. Except where specifically noted, the emphasis is ours.



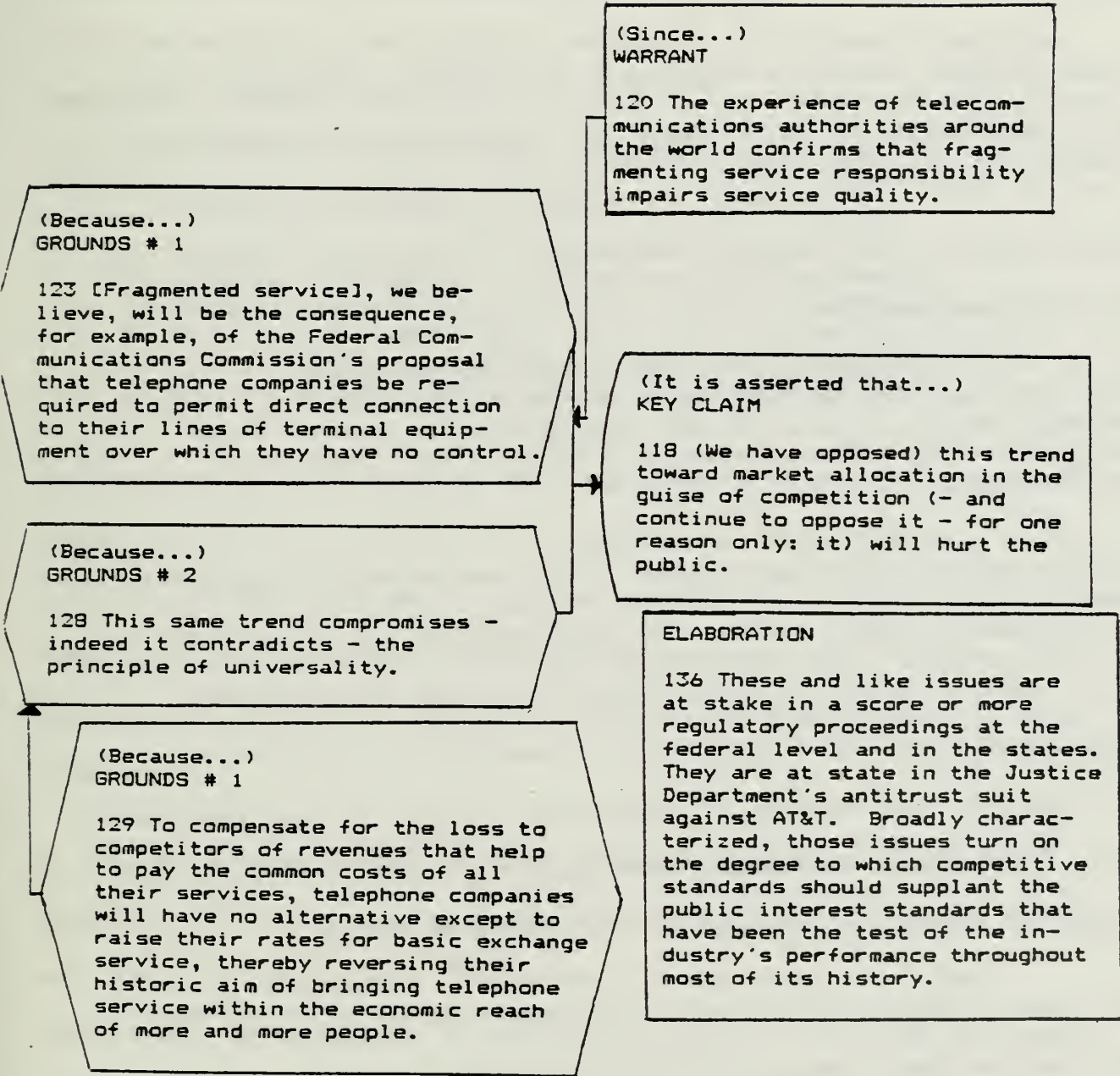


Figure 1

marketing.<sup>1</sup>

While these and other references indicate an increasingly competitive stand, the policy statement in 1977 also claims that "competition for competition's sake is not our aim." This document reiterates the concerns of previous years that competition has negative consequences for the public interest. In particular, it is argued that:

To the degree...competition forces us to relate our rates for...services more directly to the costs involved, local exchange rates will rise, thereby jeopardizing the historic trend that has brought telephone service to 95 per cent of American households.

AT&T's concern about competition's impact on the rate structure is repeated over the next several years; but the view of competition itself continues to evolve in a positive direction, as reflected in the more benign phrases "regulated competition," "fair competition," "competition in the public interest," and even "the benefits of competition." While casting itself more and more as a competitor, the company also begins to complain, however, that their ability to compete is hampered by their regulated status.

By 1980, a year of major reorganization, the company is certain that "this industry...will be widely competitive," and they also accept the inevitability of a different rate structure:

The fact of competition imposes some new economic requirements on the Bell System, and...requires repricing of products and services...according to cost and market conditions rather than on "value of service" considerations.

The company continues to be concerned that unregulated competitors will gain a distinct advantage by competing only in high-volume, low-cost long distance

service routes, thus 'skimming the cream' and leaving the higher cost, low-volume service routes to AT&T. Complaints about these "**significant competitive handicaps** that apply only to AT&T" are reiterated in 1981 and 1982. Alternatively, AT&T also seeks to assure competitors that the company will not take unfair advantage of their unique attributes.

With regard to competition, we have said that we seek no advantage in the marketplace except through performance, and that **we shall be fair competitors**. Not even by inadvertence do we want to provide our competitors a basis for questioning the integrity with which this business is conducted.

The next year the many concerns and uncertainties about the nature of competition have been largely put to rest by the Consent Decree. AT&T accepts that "what once was a regulated monopoly is becoming one of the most competitive of businesses," and reiterates the hope that regulators will "remove those aspects of regulation that apply to AT&T but not to its competitors."

By 1983 the company's description of "**strong competition**" and a "**fully competitive**" situation contrast sharply to its 1975 references to selective and contrived competition. They speak of being able to test their "managerial, technological and marketing resources in new and challenging ways...after so many years of being severely restricted in the business opportunities" they could pursue. They also suggest that after being "limited in what we could earn in every part of the business" they "can now vigorously endeavor to maximize the long term value of our shareowner's investment."

## A Changing View of Restructuring

During the period that AT&T was changing its view of competition, a closely linked transformation was taking place in its view of its own structure, and, concomitantly, the appropriate structure of the industry. Since for many years AT&T virtually **was** the telephone industry, it is difficult, and perhaps inappropriate, to draw a clear line between their discussion of industry restructuring and internal restructuring. In retrospect, the company's (and the nation's) task was in fact to disentangle the two.

In 1975, as we have noted, AT&T was primarily concerned about service "fragmentation" caused by competitors coming into areas they traditionally served as a monopoly. Their external focus is evident in the claim, from Figure 1, above, that "market allocation in the guise of competition will **hurt the public.**" Their breadth of view is also evident in the warrant used to support this claim: that "the experience of telecommunications authorities around the world confirms that **fragmenting service responsibility** impairs service quality."

By 1977 proposed legislation, not just the government's antitrust suit, was calling for some degree of divestment. In this year's Report, the company admits that "**restructuring of the supply of telecommunications services**" is a possibility. Their attitude toward the internal effect of such a restructuring is clearly expressed in the dramatic term "**dismemberment,**"

which appears in the required note on pending litigation in the back of the 1977 report:

The company believes that the relief sought [in the Department of Justice's antitrust suit], which includes **dismemberment** of the Bell System, is adverse to the public interest and is confident that it has not been in violation of the antitrust laws and that the structure of the Bell System will remain basically unchanged. In the opinion of the company, **dismemberment** of the Bell System would have adverse effects on its business, could affect its ability to raise capital, its credit standing and the market value of its securities...

The same statement appears, in almost identical form, for the next four years. During this time, however, AT&T's attitude towards internal restructuring is undergoing major changes, and, in fact, AT&T carries out two significant reorganizations within a three-year span. The aim of the first of these internal reorganizations, in 1978, is identified as "permit[ting] us more readily to perceive - and more alertly to respond to - the diverse needs of our customers."

The next year the company also reports a positive attitude toward further reorganization:

For our part, we have worked hard to find ways to make competition work where it makes sense. To this end we have indicated a **readiness to undertake a further restructuring of our business** that would separate our regulated services from unregulated services, thereby removing the occasion for competitor's concerns about cross subsidy between them.

By 1980, partly in anticipation of the impact of the FCC's Computer Inquiry II Decision, and partly, one might surmise, in an effort to ward off, or at to shape the direction of, externally imposed restructuring, AT&T undertook a second reorganization of even greater proportions than their 1978 effort. The redesign involved separating "...those departments whose responsibilities

relate mainly to regulated activities from those dealing with **prospectively** deregulated markets." It is interesting to note, in view of the divestment provisions accepted by AT&T barely a year later, that what the company saw in early 1981 as the most probable division between regulated (basic network services and Long Lines) and "prospectively" deregulated operations (residence and business products and services, directory and public telephone services) was very different from the terms ultimately accepted under the Consent Decree.

The bulk of the arguments identified in our data from the 1980 report relate to AT&T's effort to establish the validity of the second reorganization. A number of supporting arguments lay out in detail AT&T's assessment of the most probable future of the industry and its own place and mode of operating therein. A major qualifier states, however, that "this realignment...does not in itself represent the **radical restructuring** that is in prospect for our business." However, the company does not interpret their reorganization simply as a preparation for further restructuring likely to be required by the government. It also claims that reorganization is a means of "equip[ping] the Bell System to operate in competitive markets."

While the word "dismemberment" is still, for the last time, used in the back of the 1980 Annual Report in discussing pending government suits, , and "radical restructuring" has something of the same flavor, this discussion also uses the word "**realignment**," which again puts reorganization in the context of an external environment.

In 1982, after accepting the terms of the Consent Decree - which included

divestment of the operating companies - AT&T again uses the term "realignment." They now speak of the Consent Decree as "**disaggregating**" , and "**restructuring**" the Bell System. The closest they come to the strength of sentiment reflected in the earlier use of "dismemberment" is a description of the Bell System being "**broken up**" as part of the "unprecedented changes" occurring in the telecommunications industry.

They acknowledge, in 1983, that their new organization, now structured by lines of business, "is more than a modification of structure. It represents, for us, a major change in organizational philosophy." But they speak positively of the "**new, more compact AT&T**" now able to "test its managerial, technological and marketing resources in new and challenging ways."

#### Contributions to a Changed View of Competition and Restructuring

The data summarized above shows AT&T moving from a negative and defensive view of competition to a positive description of AT&T as a willing and able competitor. Initially competition is seen as a unwelcome intrusion, a "contradiction of the traditional aims of the telephone industry." As they increasingly accept the inevitability of competition, they begin to see themselves more and more as competitors and start to fill in the details: changes in rate making practices, and their own behavior as a competitor.

AT&T's view of restructuring undergoes a similarly remarkable change. From a strong defense of the traditional structure of the telephone industry, which

is to say the Bell System's monopoly and its integrated structure, AT&T moves to internal efforts to anticipate the requirements of its most likely future, from there to acceptance of the Consent Decree and the complete restructuring of AT&T. The restructuring proposals by the Justice Department and others are initially seen as attempted "dismemberment"; later, the divestment of two-thirds of its corporate mass under the Consent Decree is presented as "realignment," "disaggregation," and "reorganization."

One might say that AT&T's transition merely reflects genuine changes in the telecommunications environment noted by many observers. And it is certainly true that AT&T has had to accommodate itself to being competitive in an altered form, and in a vastly changed industry setting, in order to survive.

We are interested, however, in **how** AT&T was able to make these very necessary transitions. Not all companies do recognize "obvious" changes in the environment: Ford Motor Company, and many others, have not dropped their Model Ts soon enough. While it is not yet clear whether AT&T has correctly diagnosed the changing nature of the telecommunications industry or found a strategy that will allow them to be successful in this new setting, they **have** made major changes in their strategic posture over the last decade.

Questions about how these changes came about form the basis for one of many detailed studies which need to be made in order to understand more about the process of strategy reformulation.

Our coding method allows us an interesting way of studying how changes in attitudes toward competition and organizational structure took place. By looking at the **argument context** in which these words, and their synonyms, are



used, we are able to identify other concepts that accompany each idea through time, and look at how these concepts also change. Two additional concepts which often appear in the same arguments as competition and structure seem especially important.

First, AT&T changed its concept of technology. In arguments about what provides the impetus for and what justifies its changes in strategy, the factor of technological change began to take precedence over other influences such as actual or potential government intervention or competitive pressures.

Second, the company finds ways of maintaining a concept which had been central to its strategy for over a hundred years - the concept that its activities serve the public interest. The next two sections of the paper follow these two ideas in more detail.

### **A Changed View of Technology**

Although not as frequently mentioned as competition, technology is referred to 68 times in the Annual Reports. In the early years these occurrences refer to AT&T's own technological competence. In 1975, for example, chairman deButts wrote:

Generations of telephone people have addressed themselves continuously not only to the **advancement of communications technology** - the means by which one man may reach another in a distant place - but to the development of the operating standards and the shaping of organizational resources that would make that

faculty available to as many people as possible at as low a cost as possible.

This claim echos many others made in 1975, 1976, 1977 and 1978 which refer to AT&T's technology as a way of "improving efficiency," providing "revenue opportunities," and "contributing to our ability to accomplish more with less." Such claims are interesting because they so closely link technology with ideas that are central to AT&T's strategy and self concept at the beginning of the time period we studied - the strategy which leads them to vigorously resist competition and reorganization. Technology is seen as a means for offering **efficient** and **economical** service to "as many people as possible," and it depends upon a "unified" structure.

Very gradually, however, the company begins to refer not just to their own technology, but to technology in a more general sense. In 1976 they support the FCC's Second Computer Inquiry because it is to investigate the linking of data processing and **communications technology**. In 1978 they speak, for the first time, of the "**Information Age**" as something distinct from themselves, even though they quickly add that "for its coming, no business is more responsible than ours." The real changes, however, occur in the last three years of the period studied.

Whereas previously the company was concerned that "regulated competition" might limit their ability to use their technological expertise, in 1980 the company links competition and technology in a new way by arguing that competition can make a contribution to technological development.

Traditionally the Bell System has addressed its research and development activities to system optimization, the balanced improvement of our service capabilities in the context of our obligations to the entire public we serve.

**Competition by contrast spurs innovation at competitive pressure points.**

One is strategic, the other tactical. Our aim is to combine the best of both.

This new view foreshadows the prominent role played by technology in AT&T's explanation of its signing the Consent Decree, as evidenced in this portion of the 1981 Annual Report subtitled "A New Era."

For most of the Bell System's history, our business was easily defined. It was, simply, the telephone business.

Then in recent decades, as telephone lines began carrying television, data and other forms of communications as well as telephone calls, it was evident that the business was changing. It had become telecommunications.

Now our business is changing once again. It is communications enhanced by information technologies. It is the business of transporting and managing information.

In short, it is a new era.

Three influences have quickened the pace of change in the industry: the development of new, Information Age markets for communications and information-related services; advances in technology that helped create these new markets and which will foster their growth; and the unfolding of governmental policies endorsing increased competition and reduced regulation.

Responding effectively to the changes taking place in the industry requires changes on our part, too: changes in the way we provide and price our services, in the financial management of the business and, most of all, in the way we are structured.

The consent Decree agreed to by AT&T early in 1982, the basis for the government's action in agreeing to drop its antitrust suit, is a clear demonstration of our readiness to adapt to the changed environment we confront in the 1980's.

This quote summarizes a transition that can, in fact, be traced through the company's choice of words over the time period we studied. From 1975 to 1976 the term "telephone industry" is used an average of 4 times each year; "telecommunications industry" is used once in each report. After one last

reference in 1979, "telephone industry" does not appear again, and "telecommunications industry" appears 6 times in 1979 and 1980. But this transition is itself quickly broadened. In 1983 the company defines themselves as "meeting customer needs, worldwide, for the electronic movement and management of **information**," they speak of their "telecommunications and information network," and "telecommunications industry" as a term does not appear at all.

In summary, AT&T developed an expanded view of technological development: technology is something the company has a privileged position in understanding and using; but it is now also seen as something occurring outside the company's control. This new view became critical to the way in which AT&T defined itself and its acceptance of the Consent Decree. Essentially, the company cited **technological** change as the major motivator for government intervention in its affairs, cited **technological** change, not reorganization or competition, as the major influence on the industry, and gave its ability to compete **technologically** as the major rationale for its acceptance of the Consent Decree.

The point is made more succinctly in a later quote from the 1981 Report, a quote which puts competition in third place as an influence on the industry:

New technologies. Information Age markets. Increasing competition.

These are the major elements of change in our business, and it is to take them into account that in recent years a new national telecommunications policy has been evolving.

## A Changed View of Service in the Public Interest

Another theme that is frequently found in discussions of competition and restructuring is the theme of the public interest. As Figure 1 (above) shows, in 1975 AT&T characterized federal actions as testing "the degree to which **competitive standards** should supplant the **public interest standards** that have been the test of the industry's performance throughout its history." And they opposed regulatory decisions they saw as "market allocation in the guise of competition" on the grounds that "it will hurt the **public.**"

Arguments made over the next several years continue to show a tight link between the company's negative stand on increasing competition and their concept of service in the public interest. In 1976, for example, they argue against the trend of FCC decision making by linking competition with increasing rates, which in turn will jeopardize the availability of "widely affordable" service. Speaking to Congress that same year, deButts suggested that the FCC had "exceeded its assigned function" and begun to "legislate" national policy in favor of specialized rather than general public interests.

...the issue confronting us is not simply a question of monopoly versus competition but the rather more fundamental question: What is the basic aim of this country's telecommunications policy? Is it, as we in the industry had conceived it to be and the Communications Act appears to confirm, to promote the widest availability of high quality communications service at the lowest

cost to 'all the people of the United States?' Or does that aim now yield to the **particularized interests** of special classes of users? If the latter be the case, let it be candidly recognized that for what only some people want everybody sooner or later pays.

As various federal activities continued, however, the company came to see that their former conception of the public interest as "high quality communications service at the lowest cost to all the people of the United States" was indeed too narrow. In 1977 they begin to talk of "**conflicting public interest objectives.**" Although they still maintain that the public interest demands a unified network capable of promoting economical, widely available service, they also begin to recognize "market" demands as another form of public interest.

On the one hand, **the public interest will be served by providing more customer options and more diversified services** in the specialized sectors of telecommunications and, on the other, [the public interest will be served] by maintaining the technical and operation integrity of the public switched network and a rate structure that promotes the widest availability of its services.

In 1978 the company acts on this expanded awareness by restructuring itself along market lines. Their explanation of this action as responding to "the increasing diversification of customer's needs" marks the increasing attention given to customers, and stockholders, versus an almost exclusive emphasis on the public in earlier years. "Customer service," for example, begins to appear in 1978 where previously service appeared alone or in arguments involving the public as a whole. This development is paralleled by an appearance of "customer interest" and "stockholder interest" along with the familiar "public interest."

Meanwhile, development of AT&T's changed understanding of the public interest

is evidenced by their 1979 statement "at year's end, there appeared to be a growing consensus that legislation can be developed which can yield the **public the benefits of competition.**" Their continuing concern about rates and the integrity of their own structure, however, is apparent in their addition that these benefits appear "not [to] compromise the management of the basic telecommunications network or result in such dramatic increases in the price of rural and home service as to impair the wide availability and affordability of basic telephone service."

In 1980, however, what the company described as "a gathering consensus on national telecommunications policy" leads them to reverse the above view.

Here they describe the impetus for their second major restructuring:

We shall be transforming a business that for more than 60 years has been structured to meet the requirements of a highly regulated environment to one that matches the dictates of a day and age that looks mainly to the **marketplace** to decide what products and services the **public** will be supplied, who will supply them and at what price.

This represents a major change in the company's view of the public and their own relationship to that public. A later quote from the same report indicates that the company has also relinquished their longstanding concerns about the impact of competition on the rates which the public must bear:

**The fact of competition imposes some new economic requirements on the Bell System, and, in some cases, the general public as well. It requires repricing of products and service - pricing them according to cost and market conditions rather than on "value of service" considerations.**

Once this essential transition is made, the company becomes increasingly positive about the public interest aspects of changes in the telecommunications industry. In 1981 they offer a very interesting argument

(outlined in Figure 2) about the benefits of the Consent Decree.

Figure 2 about here

This argument shows the increasing importance of share owners and customers, in GROUNDS # 1, and the broad reach of the company's understanding of changing technology, which in GROUNDS # 2 is used to justify the decree as a way of bringing **technological benefits to the American public.**

The concept of the public interest was thus not dropped over the time period we studied. Instead, the company modified their understanding of the nature of the public interest and how it might be served. Far from relinquishing their past emphasis on public interest, they use this modified concept as a bridge to the future. In 1982, for example, they note:

There is much from our past that we consider important to our future: for example, the sense that ours is a business motivated by **public interest concerns** as well as profit....Simply put, we intend to honor our past and [emphasis in the report] fulfill the promise of our future.

But, it is also interesting to note that this report mentions the public interest only this once, and goes on to discuss their customers in ten other places. (In 1983 the ratio is 2 to 15.) In essence, AT&T moved from concentration on their own technology to an expanded view of "Information Age" technology creating an industry, while contracting their view of themselves as serving the public to a view of the public well served by a group of competing service providers.



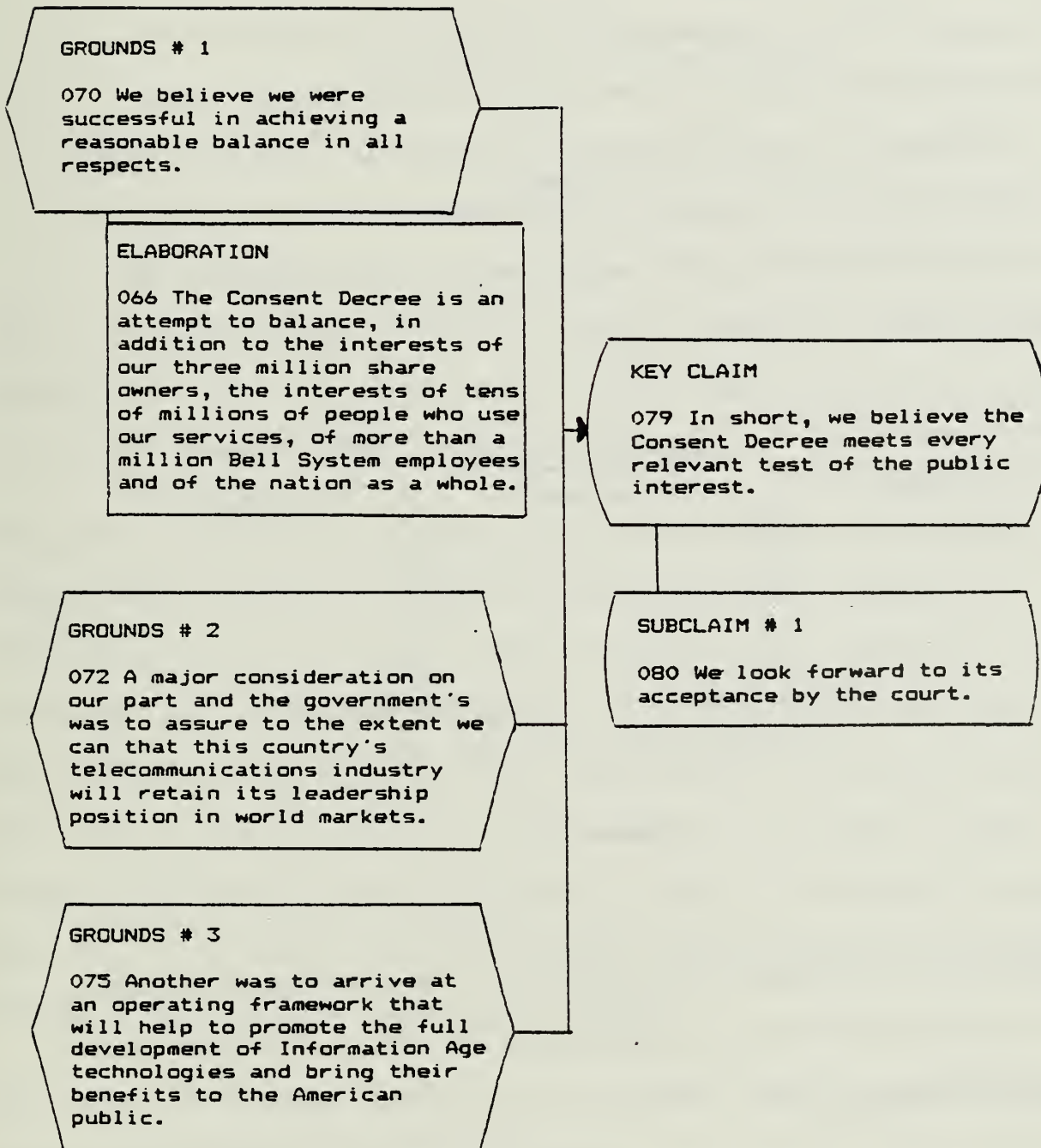
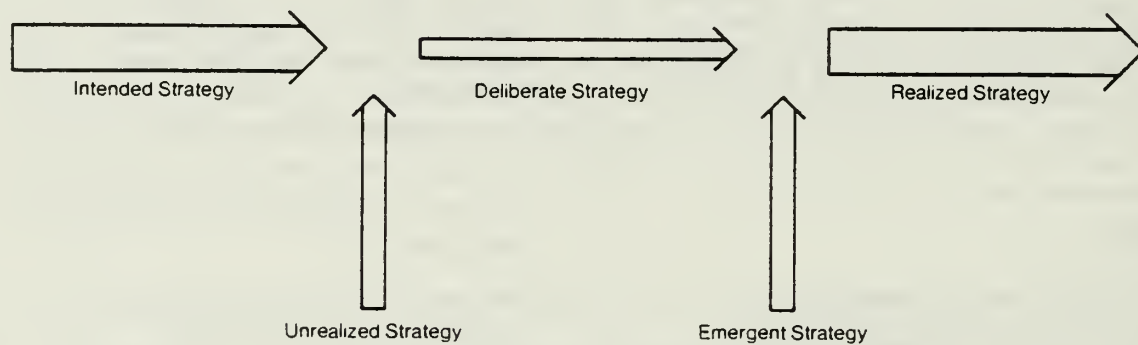


Figure 2

## Strategy as Pattern

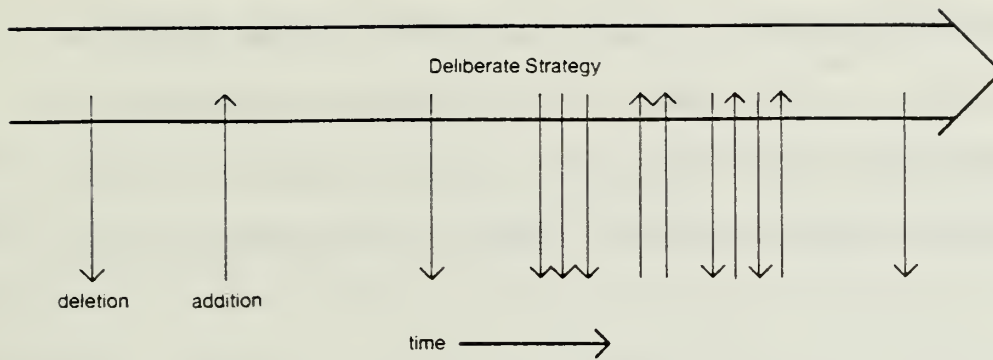
Mintzberg et al. (1976) have suggested that strategy can usefully be seen as a pattern of activities which may or may not be fully intended. Their schematic, in Figure 3, shows that pattern is created as certain strategies in a core set of intended strategies are abandoned while other strategies emerge as experience shows they have made a positive contribution to the organization.



Mintzberg's (1978) view of strategic pattern is generated

**Figure 3**

This schematic can be extended, as in Figure 4, to show an ongoing stream of strategic concepts to which major modifications are made in irregular periods of strategy reformulation (Huff, 1982).



An alternative view of strategic pattern generation

**Figure 4**

This way of thinking about strategy is important because it emphasizes the essential link between the process of strategy formulation and its content - a union that too much research artificially severs.

The analysis presented in this paper illustrates a method for explaining the process shown in Figure 4 in terms of changing content. Strategy is identified as a set of concepts about the company and its situation. The use of computer text files makes it practical to follow a rather large set of key words representing these concepts and count their use over time in documents created by the company. The word count provides, at the least, a rough estimate of the use of specific concepts and points to portions of the data base that can be examined for a more complex understanding of the concepts dropped or added to the organization's strategy.

This paper also suggests, however, that the view of strategy reformulation represented in Figures 3 and 4 is inadequate in an important way. One of the things that makes reformulating strategy so difficult is that **each concept of**

importance in an organization's strategy is linked to other important concepts. The nature of the linkage is made apparent when statements of strategy are broken down into "arguments" - claims about what is true, evidence presented in support of those claims, and qualifiers to their applicability.

Our analysis of AT&T suggests that as a company's understanding of an important strategic concept (like "competition") changes, the arguments in which it appears are likely to change as well. But arguments are themselves nested and interlinked. A given argument, once accepted, becomes the grounds upon which subsequent arguments are built. Thus change in some arguments bring about changes in other arguments, and the "summary claims," such as those we try to capture in our year by year overview, are themselves changed.

There is a story about the newcomer to China who is told that the world is carried on the back of a giant turtle. "What does the turtle stand on?" the skeptical newcomer asks. "On the back of another turtle," he is told. "But what does ~~that~~ turtle stand on?" he persists. "Oh," he is told, without concern, "it's turtles all the way down."

The problem with strategy reformulation is that it is "turtles all the way down." Most discussions of good strategy emphasize fit and synergy. But when strategy must be changed, fit and synergy can become liabilities. The closer the fit and the higher the degree of synergy, the less likely it is that the effects of change in one area of the strategy can be 'sealed off'; and the more likely it is that such a change will cause a chain reaction, possibly unintended, of changes throughout the whole of the strategy.

Our analysis suggests, however, the way in which the chain reaction is arrested. Old concepts and arguments are not all abandoned. Some are refurbished so that they can continue to bear the burdens they have in the past. Thus technology and public service, two concepts that were central to AT&T's strategy from its inception, are reworked to fit into a radically altered strategy. Far from seeing this salvage effort as an unfortunate inability to develop new strategy unfettered by the past, we would argue that such links are a necessary ingredient in strategy reformulation, and, therefore, that understanding the links between old strategy and new is a critical task in the ongoing investigation of reformulation.

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Appendix A  
Sample Coded Text - 1975 Annual Report

KEY CLAIM            LINE NO: 118    TYPE:

118 (We have opposed) this trend toward market allocation in the  
119 guise of competition (- and continue to oppose it - for one  
120 reason only: it) will hurt the public.

GROUND # 1 for line: 118    LINE NO: 123    if CLAIM, TYPE:

123 [Fragmented service], we believe, will be the consequence, for  
124 example, of the Federal Communications Commission's proposal  
125 that telephone companies be required to permit direct  
126 connection to their lines of terminal equipment over which  
127 they have no control.

WARRANT links claim line: 118    with grounds line: 123  
                                 LINE NO: 120            if CLAIM, TYPE:

120 The experience of  
121 telecommunications authorities around the world confirms  
122 that fragmenting service responsibility impairs service  
123 quality.

GROUND # 2 for line: 118    LINE NO: 128    if CLAIM, TYPE:

128 This same trend [toward market allocation in the guise  
                                 of competition] compromises - indeed it contradicts - the  
129 principle of universality.

GROUND # 1 for line: 128    LINE NO: 129

129 To compensate for the loss to  
130 competitors of revenues that help to pay the common costs of  
131 all their services, telephone companies will have no  
132 alternative except to raise their rates for basic exchange  
133 service, thereby reversing their historic aim of bringing  
134 telephone service within the economic reach of more and more  
135 people.

Appendix A - continued  
Sample Coded Text - 1975 Annual Report

ELABORATION of line: 118    LINE NO: 136    :trend

136 These and like issues are at stake in a score or more  
137 regulatory proceedings at the federal level and in the  
138 states.    They are at state in the Justice Department's  
139 antitrust suit against AT&T.    Broadly characterized, those  
140 issues turn on the degree to which competitive standards  
141 should supplant the public interest standards that have been  
142 the test of the industry's performance throughout most of  
143 its history.



Appendix B  
Sample Output of Word Search Routines

Search: compet-

1975

-competitors-

107 Over recent years, this concept  
108 has been breached by a series of regulatory decisions that  
109 have opened more and more of the field of telecommunications  
110 to entry by "**competitors**" who are free to serve selected  
111 segments of the market but who do not at the same time share  
112 the regulated common carriers' obligation to serve the  
113 entire public.

-competition-

118 We have opposed this trend toward market allocation in the  
119 guise of competition - and continue to oppose it - for one  
120 reason only: it will hurt the public.

-competitors-

129 To compensate for the loss to  
130 **competitors** of revenues that help to pay the common costs of  
131 all their services, telephone companies will have no  
132 alternative except to raise their rates for basic exchange  
133 service, thereby reversing their historic aim of bringing  
134 telephone service within the economic reach of more and more  
135 people.

-competitive-

140 Broadly characterized, those  
140 issues turn on the degree to which **competitive** standards  
141 should supplant the public interest standards that have been  
142 the test of the industry's performance throughout most of  
143 its history.

-competition-

337 Stressing, as we have previously, that **competition** will  
338 result in higher overall costs and in increased basic  
339 telephone rates for the great majority of residence  
340 customers, we stated at the start of the inquiry that there  
341 are no substantial economic facts to support changing the  
342 regulated natural monopoly structure of telecommunications.





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